

JOURNAL OF COMMISSION WORK SESSION
July 5, 2023

City Commission Work Session
Civic Center, Gibson Room 212

Mayor Kelly presiding

CALL TO ORDER: 5:30 PM

CITY COMMISSION MEMBERS PRESENT: Bob Kelly, Susan Wolff, Joe McKenney, Eric Hinebauch and Rick Tryon.

STAFF PRESENT: City Manager Greg Doyon and Deputy City Manager Chuck Anderson; City Attorney David Dennis and Deputy City Attorney Rachel Taylor; Finance Director Melissa Kinzler, Deputy Director Kirsten Wavra and Financial/Tax/Budget Analyst Levi Johnson; Public Works Director Chris Gaub; Municipal Court Judge Steve Bolstad; Fire Marshal Mike McIntosh; Police Chief Jeff Newton; and, Deputy City Clerk Darcy Dea.

PUBLIC COMMENT

None.

1. 2024 PROPOSED BUDGET

Mayor Kelly noted that this is a continuation of several presentations of the main policy document the Commission puts together every year with the assistance of Department Heads, City Manager, Finance Director and staff.

City Manager Greg Doyon reported that budget presentations were broken up into two parts. The general fund, which is where all the property taxes go, was presented at the last meeting. Today staff will review the full budget including the City's other 58 funds.

Finance Director Melissa Kinzler introduced Financial Analyst Levi Johnson, Grant Administrator Tom Hazen, and ARPA Project Manager Sylvia Tarman.

Finance Director Kinzler and Deputy Finance Director Kirsten Wavra reviewed and discussed the following PowerPoint slides:

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City Manager's Proposed Fiscal Year 2024 Budget

July 5, 2023 Work Session

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General Fund Recap

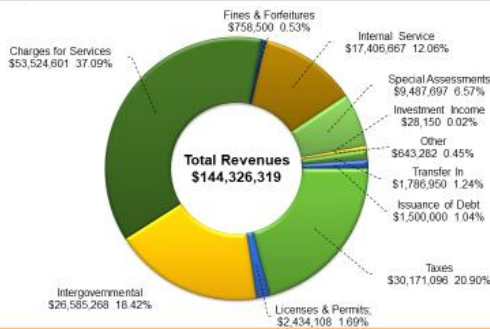
	FY2024 Budget	
Total Revenues	\$ 37,973,437	3.6% Increase
Total Expenditures	\$ 38,971,501	2.9% Increase
Revenue Over (Under) Expenditures **	\$ (998,064)	
Unreserved Fund Balance	\$ 6,845,473	17.6%
Reserved Balance (CARES) - Beginning	\$ 3,379,830	
Balance FY2024 Budget	\$ (998,064)	
Reserved Balance (CARES) - Ending	\$ 2,381,766	6.1%
Total Fund Balance	\$ 9,227,239	23.7%

** Anticipating another deficit in FY2025

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City-Wide Revenues



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Upcoming Budget Process

- **June 20th Work Session**
 - Presentation of General Fund
- **TODAY: July 5th - Commission Action**
 - Work Session: full budget presentation
 - Commission Meeting: set public hearing for July 18th
- **Additional budget work sessions?**
- **July 18th - Commission Action**
 - Public Hearing and Adopt or Continue Budget
- **August 15th - Commission Action**
 - Adopt Annual Tax Levy

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City-Wide Revenues

	FY2024 Budget	% of Total	Change from Prior Year
Taxes	\$30,171,096	20.90%	10.60%
Licenses & Permits	\$2,434,108	1.69%	- 0.69%
Intergovernmental	\$26,585,268	18.42%	70.69%
Charges for Services	\$53,524,601	37.09%	2.58%
Fines & Forfeitures	\$758,500	0.53%	- 8.78%
Internal Service	\$17,406,667	12.06%	6.40%
Special Assessments	\$9,487,697	6.57%	10.52%
Investment Income	\$28,150	0.02%	36.32%
Other	\$643,282	0.45%	6.23%
Transfer In	\$1,786,950	1.24%	- 28.48%
Issuance of Debt	\$1,500,000	1.04%	
Total Revenues	\$144,326,319	100.00%	14.20%

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Projected General Fund Revenue Increases

General Fund Revenue	FY2021 Actual Increases	FY2022 Actual Increases	FY2023 Actual Increases	FY2024 Proposed Increases	Annual Household Impact
Newly Taxable Property	\$ 119,488	\$ 366,758	\$ 352,303	\$ 400,000 Amount not known until August	
Inflationary Factor	\$ 0	\$ 0	\$ 641,691 Used carry-over mills from prior 2 years	\$ 451,129	\$100,000: \$5.90 \$200,000: \$11.79 \$300,000: \$17.69
Permissive Medical Levy	\$ 0	\$ 0	\$ 247,551	\$ 353,042	\$100,000: \$4.61 \$200,000: \$9.23 \$300,000: \$13.84
Entitlement Share	\$ 284,198	\$ 130,271	\$ 294,004	\$ 311,446	
Total Revenue Increase	\$ 403,686	\$ 497,029	\$ 1,535,549	\$1,515,617	

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Proposed Rate, Assessment and Fee Adjustments

Department	Division	FY2024 Adjustment	Previous Adjustment
Fee	Admin Animal Shelter	various	2015: various
Fee	Admin Civic Center Events	various	2021: various
Fee	Planning & CD Planning Fees	various	2014: various
Fee	Planning & CD Permit Fees	8%	2018: - 2.6%
Fee	Park & Rec Parks, Rec Center, Multi-Sports	various	2019: various
Assessment	Park & Rec Natural Resources – Boulevard	6%	2023: 12%
Assessment	Park & Rec Portage Meadows	5%	2023: 5%
Assessment	Park & Rec Park Maintenance District	0%	NA
Assessment	Public Works Street Maintenance	10%	2016: 10%
Assessment	Special Districts Street Lighting Districts	14%	2023: 4.5%

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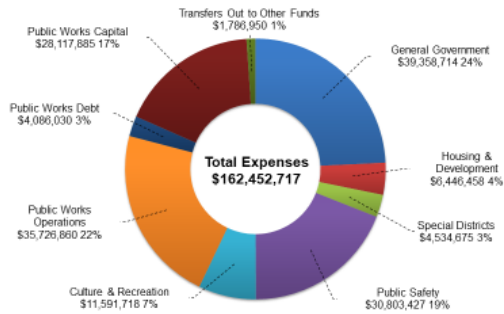
City-Wide Expenses

	FY2024 Budget	% of Total	Change from Prior Year
Personal Services	\$53,911,310	33.19%	3.38%
Supplies	\$7,151,060	4.40%	2.69%
Purchased Services	\$32,230,860	19.84%	11.68%
Debt Service	\$6,044,925	3.72%	- 7.91%
Contributions & Other	\$3,565,133	2.19%	58.91%
Other	\$20,450	0.01%	0.00%
Internal Service	\$16,199,136	9.97%	5.61%
Capital Outlay	\$41,542,893	25.57%	21.53%
Transfer Out	\$1,786,950	1.10%	- 28.48%
Total Expenses	\$162,452,717	100.00%	9.16%

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City-Wide Expenses



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Proposed Rate, Assessment and Fee Adjustments

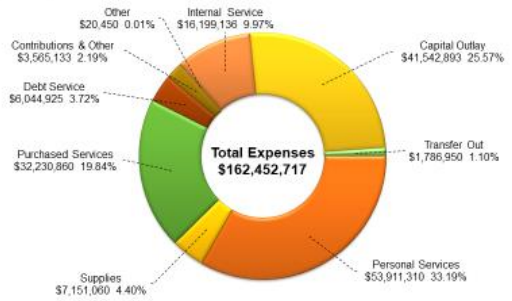
Division	FY2024 Adjustment	Previous Adjustment
Utility Water	10% (Spring 2024)	Spring 2023: 10%
Utility Sewer	10% (Spring 2024)	Spring 2023: 10%
Utility Storm Drain	10% (Spring 2024)	Spring 2023: 10%
Utility Sanitation	10% (Spring 2024)	Spring 2023: 10%

Utility increases are affected by regulatory compliance, cost of chemicals and other supplies, and capital investments into the systems

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City-Wide Expenses



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Capital Outlay Major Projects

Reference: Budget Book Pages 131-135

Major Project	Project Budget
BarSAA Projects (Park Drive, Giant Springs Road)	\$1,341,539
33 rd St Water Storage Tank Repair	\$1,500,000
Water Main Replacements	\$2,900,000
Lead Service Line Pilot Project	\$370,000
Riverview Sewer Replacement and other miscellaneous sewer rehab	\$2,200,000
Lift Station No. 1	\$7,800,000
Central Ave & 3 rd St Storm Drain Phase 2	\$2,000,000
Year 6 Park District Projects	\$433,220
ARPA Projects (Court Remodel, Evidence Building, Fire Station Infrastructure, Civic Center Boiler)	\$12,794,967
Vehicles & Equipment	\$2,484,516
Total Capital Outlay Budget in FY2024	\$41,542,893

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Employee Summary

Reference: Budget Book Pages 125-130



General Fund – Court	Full-time judge starting 1/1/2024 (previously part-time)	0.10
General Fund – Legal	1 Prosecutor → 2 support staff, staff attorney hours	1.10
IT Fund	Added desktop support specialist	1.00
Library Fund	Mill levy pass	13.43
Housing Authority	Separation from City	(18.94)
Civic Center Events Fund	Reduced full-time laborer to part-time	(0.28)
Recreation Fund	Reduced hours	(0.11)
Planning & CD Fund	Development engineer transferred to Public Works	(1.00)
Water Fund	Removed SCADA tech position	(1.00)
Engineering Fund	Added development engineer from PCD	1.00
Sanitation Fund	Added maintenance worker	1.00
Total (Decrease) in FY2024		(3.70)

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Fund Review

Reference: Fund Detail Worksheet

- 57 Budgeted Funds
- Fund balance % requirement for each fund
 - Meets requirements
 - Does not meet requirements



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ARPA Update

Beginning ARPA Balance	\$19,472,737
ARPA Projects	Project Amounts
Committed Projects	\$5,992,228
PD Evidence Building	\$4,500,000
Court Remodel	\$3,500,000
Fire Station Infrastructure	Reduced to \$2,576,000
Civic Center Boiler/HVAC	Reduced to \$2,218,967
ARPA Project Manager	Reduced to \$100,000
Civic Center AV Upgrades	Project removed
Civic Center Elevator	Project removed
Running Balance	\$585,543

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CARES Update

Beginning CARES Balance	\$10,159,163
CARES Act Use	Amount
FY22 Replenish Funds Impacted by COVID	\$1,141,151
Balance General Fund Budget in FY2023	\$1,205,000
Replenish Planning Fund in FY2023	\$297,500
Replenish Recreation Fund in FY2023	\$140,000
Replenish Multi-Sports Fund in FY2023	\$34,500
GFDA Revolving Loan Fund Contribution	\$1,400,000
Growth Policy Plan Update in FY2024	\$300,000
Balance General Fund Budget in FY2024	\$998,064
Total CARES Act Usage	\$5,516,215
Remaining CARES Act Balance	\$4,642,948

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Next Steps

- Set public hearing tonight for July 18, 2023
- Additional work sessions before then?

Questions?

Requests for more information?

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With regard to the “Upcoming Budget Process” slide and adopting the annual tax levy, Manager Doyon noted the importance of fund balance, because for a couple of years fund balance was used to offset unexpected events such as change in valuations or protests.

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With regard to the “General Fund Recap” slide, Manager Doyon pointed out that a revenue shortfall was anticipated after Covid. CARES funds were used to help offset lost revenues. It will probably take a couple of years for the general fund to come out of that deficit, as a result of not utilizing the inflationary factor, and no fee or assessment increases during the Covid period. It was the right thing to do for the taxpayer. Unfortunately, it really put the City behind in the general fund.

After review of the baseline budget, the City is in the position of being under funded. The general fund is not in a healthy position yet to make a determination of whether to use CARES funds for public safety needs, and ARPA money can only be used for things related to Covid.

Director Kinzler added that another budget deficit is anticipated in fiscal year 2025. There has been a deficit since fiscal year 2021. The City has not fully recouped the lost revenues from fiscal years 2021/2022. Other things to consider in property tax growth is newly taxable property, property that is in the Tax Increment Financing Districts that won't affect the tax base, nonprofits, tax abatements, and the tax protests that may occur in the near future. The City does not receive any of the protested tax revenue until those protests are settled. For example, it took approximately three-years to receive the revenue after Calumet's tax appeal settled.

Director Kinzler reported that the City received its first marijuana tax payment in the amount of \$27,704.98. The total amount collected was \$62,748. Fifty-percent of that went to the County, five-percent to the State, and 44.2% to the City of Great Falls.

Commissioner Tryon inquired why that first quarter amount was much less than the \$220,000-\$240,000 annual amount that the City anticipated it would receive.

Director Kinzler responded that the tax revenue received is based on the actual sales. The next quarter payment is due in September 2023.

She also noted that the City received about \$65,000 this year for the national opioid settlement. The projected settlement amount for future years is about \$39,000. These funds are set aside in the general fund.

Mayor Kelly responded that the Commission will need to discuss allocation of those funds at a later time.

In response to Mayor Kelly, Director Kinzler explained investment income is shown as projected investment income and is not the actual budgeted amount.

With regard to the “Projected General Fund Revenue Increases” slide, Director Kinzler explained that when taxable valuations go up, it does not mean the City receives additional revenue. It has to be newly taxable property, which means construction. When taxable property valuations go up, the number of mills that the City can actually levy goes down. The Library mill will bring in additional taxes, but that was voted.

Commissioner McKenney inquired when the City would have these numbers from the State, so constituents and taxpayers could be assured that their property taxes are not going to go through the roof.

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They are having a hard time understanding and are automatically connecting when the taxable value of their house went up 40% that the taxes that they pay are going to go up 40%, which is not going to happen.

Director Kinzler responded the Department of Revenue actual valuations that will tell us our mill value are expected mid-August. It will also depend on the mill levies for the different jurisdictions. The City is only about 26-27% of a person's tax bill.

Commissioner Tryon noted that the estimated dollar amount on the State's property valuations that went out are misleading.

Director Kinzler agreed, adding that those mills are inflated. If everybody's valuation went up 40% that would lead to the actual number of mills that the City would be able to levy to be much less. Another thing to consider is, if a major taxpayer won a tax protest or if something major happens with that taxpayer, then that may affect everybody's taxes. It is a complicated process because of the way that the mill levies are set. The City deals in aggregate numbers and taxpayers' numbers are very much their personal numbers.

Commissioner Tryon commented that the bottom line is, because a person's State tax assessment says their house is worth 40% more now than last year, that it does not mean their taxes are going up 40%.

Director Kinzler added that if a person had a huge improvement and it qualified as a newly taxable property, it might go up depending on what happened in their individual circumstances.

Mayor Kelly commented that it is shameful that communication went out to the taxpayers the way it did. He hopes that the Department of Revenue pulls it back, offers an apology to the taxpayers of this state and puts it in plain English exactly what they are trying to accomplish with those increases.

Director Kinzler commented that approval of the inflationary factor and permissive medical levy are being recommended. This is an ongoing revenue source to cover ongoing expenses. It is not best practice to use one-time money for ongoing expenses, such as the CARES money.

Commissioner Hinebauch received clarification that the difference between the 3.76% versus 2.46% inflationary factor was because the City had a carry-over from fiscal years 2021-2023 that the City took in fiscal year 2023. The inflationary factor is a three-year average divided in half.

With regard to the "Citywide Expenses" slide, Commissioner Tryon requested clarification of the 24% for the "general government" category.

Director Kinzler responded that category includes general-purpose expenses of the government, including insurance, information tech, health and benefits.

Mayor Kelly inquired if anything would be coming off the debt service list this year.

Director Kinzler responded that the last payment for the soccer general obligation debt would be made this year, and another debt from the water fund.

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City Manager Doyon added that the golf courses owed the general fund a lot of money. Because of the new, refreshed operations and services at the courses, the City is close to closing out that debt.

Discussion of the “Fund Review” slide consisted of guidelines, and the following funds that did not meet the balance requirements: General Fund, Planning and Community Development Fund, Parking, Recreation, and Multi-Sports. Director Kinzler added staff is looking at fee increases for those funds.

Commissioner McKenney received clarification that when particular funds do not meet the requirements, the money comes from that specific fund balance. In some cases, it would mean that if something was not done about that fund, it would either need to have general fund subsidy or something else would need to happen with that fund.

Commissioner Wolff received clarification that the difference in the Parking fund is because the expenses have been greater than the revenue coming in.

Commissioner Hinebauch requested semi-annual updates on the accounts with chronically deficit fund balances, and a plan on getting out of the deficit.

Manager Doyon responded in the affirmative and added that some funds will fluctuate depending on things that occur in those respective funds.

Mayor Kelly clarified that none of the funds at this point are in a deficit. The funds are short of the recommended balance the City would prefer to have in those accounts.

With regard to the “ARPA Update” slide, Commissioner Wolff expressed some heartburn regarding the reduced funding for the Fire Station Infrastructure and Civic Center Boiler/HVAC projects.

Grant Administrator Tom Hazen commented that, in the grand tradition of ARPA discussions, these are evolving figures, and what is being looked at here is not a final calculation. We have realized that the money is running out and potential reductions have been identified.

Commissioner Wolff inquired what, in the fire stations, will not get done.

Grant Administrator Hazen responded that, if this plan is stuck to, Fire Station 4 has been removed because it has had the most recent amount of work done. The work that needs to be done at Fire Station 1 is a clear priority.

Deputy Director Wavra reported that \$4.6 million dollars is remaining from the original CARES allocation of \$10.1 million.

Manager Doyon clarified that he is recommending that those funds be held in reserve until the general fund gets into a healthier position, and then certainly the Commission can make some decisions about how to appropriate it thereafter.

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Commissioner McKenney received clarification that there was not a timeline/deadline for the use of the CARES money.

Director Kinzler inquired if the Commission would want another work session before the July 18, 2023, public hearings on the budget and the intent to increase property taxes.

Mayor Kelly suggested not having a separate work session but for Commission members to pursue staff individually to seek out responses to questions.

Commissioner Tryon referred to the general fund deficit of almost \$1 million dollars and commented the amount the City could legally raise through the inflationary factor and permission medical levy on a \$300,000 home is roughly \$30 per year. He is hearing why does the Commission have to raise taxes at all if the City is going to see \$350,000 more dollars in the general fund from the savings from subsidizing the Library, and receiving the opioid settlement and marijuana tax revenues.

Manager Doyon responded that the blunt answer is because the Commission did not raise taxes for a couple of years. He added that other factors to consider are that the City, as an organization, is an entity just like any other entity that is subject to price fluctuations in the market, inflationary forces, supply chain issues and so forth; and, negotiated wages and benefits for over 75% of the City's workforce is a big undertaking in a market that is very challenged with recruitment and retention. Before the Commission this evening are a couple of union contracts to ratify that will give the Commission a sense of some of the financial impacts on the City that relate to this budget. Several more contracts are still being negotiated. There is a cost of business and the City is not immune. The way that government functions is through some sort of taxation and what it takes to operate the City at expected levels.

The City does not raise enough taxes just to pay for police and fire as it is today without the entitlement share from the State of Montana. That is a big deal because that does impact the request that the Commission has before it to fund public safety at the level that it can with the tools that we have.

Director Kinzler added that the \$350,000 savings from the Library subsidy has already been considered in the \$998,000 deficit. The City has done cost savings and cut subsidies to the Civic Center Events and to Engineering.

Manager Doyon commented that it is frustrating that he has tried to create capacity in the general fund to deal with public safety. When the City came out of Electric City Power, the goal was to restore the general fund and then start hitting the things that have been deferred. Every time a little bit of capacity was built up, it got sucked into something that was deferred.

He explained that one year when he thought the budget was in good shape, a quarter of a million dollars was allocated for fire station improvements. That money was eaten up by one fire station. The can has been kicked down the road and unfortunately, that is where we are.

There has definitely been some growth in the community; however, the taxes that growth will bring in is not what people think. Yes, the apartments look large. However, you have to look at how they are classified under the State property tax system to make an assessment of what the impact of that is going

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to be on your operating budget and typically, residential development is not going to do it. There has to be a good mix. But, the City is behind the curve on that.

Commissioner Wolff referred to the above and beyond needs that were requested, and she recognized all of the department heads and directors for recognizing that the City doesn't have all off the resources required to run at 100% capacity. She also thanked Director Kinzler and her staff for their hard work and excellent budget proposal.

DISCUSSION OF POTENTIAL UPCOMING WORK SESSION TOPICS

City Manager Greg Doyon reported that a storm drain design manual update and solid waste study, as well as court relocation update would be topics for the July 18, 2023 work session.

ADJOURN

There being no further discussion, Mayor Kelly adjourned the informal work session of July 5, 2023 at 6:50 p.m.